

Examiners' Report

June 2023

GCE Economics A 9EC0 03

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Introduction

The paper was seen to be highly accessible, and the context of the questions was current and based on very relevant recent economic developments in the UK, and most questions were answered with cogent economics and integrated diagrams. The data was readily usable, and the best answers made use of it in every question, as indeed is expected on data response papers. The lack of time to digest the data was not an issue for many students this year.

There were very few blank answers as there have been in some recent years on some items. The areas causing the most problems for students were 2d and 2e. The mean scores on these questions were 14.09 and 14.98 which are significantly below the 16-18 mark range that is usually seen on these questions since the specification was first examined in 2017.

There was a tendency for candidates to write far too much for the 5 – and 8 – mark questions, running out of time at the end and the mean scores as a percentage are much higher on these questions. Particularly significant is that the A grade students tend to score a lower mean score on the 5 and 8 mark questions than the C grade student.

1e (effects of tax cuts) was three times more popular than policies to reduce inequality in the UK, although the performance was similar. Questions 2d and 2e were answered by the same number of people on each question, and both had major problems for some students. The main 'take away' for these questions is to think carefully before writing the answer about every possible meaning of the words. Underline the key words and check you understand them before answering. For example if you do not know what labour shortages are you confuse them with unemployment you might find it hard to earn any marks at all. Similarly if you think that the main effect of falling house prices is going to mean more people will buy houses, you will be on unsafe ground.

Question 1 (a)

Appearing as early as it does in the Specification, the topic of positive and normative economics is well known to almost every student, and there were almost no blank responses.

The main issue was in finding a normative statement, and there was a tendency to think that something that could not be proved *because it hadn't happened* was a normative statement, for example 'Ext A Lines 8-9 the richest 10% of households... would have lost £1800'.

As with every binary question such as this there were some students that confused positive with normative, and it seemed that the word positive had not really been considered, for example it 'sounded as if it is always looking on the positive side'.

However, the main difficulty for students was to pick up the analysis mark – could be tested, or subjective/objective being the most common way to develop the reasoning before mere statement of learned definitions. Many students were using the term **opinion** which is still not accepted by this exam board as an explanation of subjectivity, because of course opinion could be an estimated probability.

Just saying an 'opinion' in the last line is not enough for a mark.

(a) Explain the difference between a positive and a normative statement, using an example of each from Extract A.

(5)

A positive statement is a fact-based statement that can be proved or disproved using facts or figures. It is objective. An example from extract A is "In April 2022, a 1.25% rise in national insurance contributions was implemented". A normative statement is opinion based and is a value judgement. It is subjective, so can't be proved or disproved. An example includes: "The former chancellor also removed the 2014 cap on bankers' bonuses, clearly an unfair decision". If 'Unfair' is an opinion, not a fact.



ResultsPlus
Examiner Comments

However this gets all 5 marks because we have the fact-based statement, the proved or disproved distinction and the word 'subjective'.

Both application marks are there.



ResultsPlus
Examiner Tip

Normative statements are not opinions. They are value judgements.

This answer also uses the term 'opinion' but also gets the marks because there are enough points from the mark scheme to get all the Knowledge and Analysis marks.

- (a) Explain the difference between a positive and a normative statement, using an example of each from Extract A.

(5)
A positive statement is a statement that is a fact backed up by evidence and data ~~which~~ whereas a normative statement is a statement that is based off of opinion and judgement ~~meaning~~ there is no evidence to support this statement. An example of this would be "in April 2022, a 1.25% rise in national insurance contributions was implemented". This is an example of a positive statement "£30 billion tax cut would have benefitted the rich". This is a normative statement as it is opinion and there is no evidence to back it up.



ResultsPlus
Examiner Comments

Unfortunately this item only receives 4/5 because the chosen normative statement is not in fact a judgement, but rather a statement that could be tested but has not been tested. It's a fine distinction but important to learn that normative is not about probability or whether or not something will happen.



ResultsPlus
Examiner Tip

Make sure you know what a value judgement really is. Read a few newspaper articles and you will soon get the idea.

Question 1 (b)

This question worked very well in terms of drawing out large amounts of economics learning from the candidates. The question so clearly asked for information that there were very few that omitted the data. The main issue, as always on the 8-mark questions, is the lack of evaluation. Examine questions are always 2 K 2 Ap 2 An 2 Ev. The evaluation is best when considering one's own answer and arguing why it might not be such a significant factor, or in fact might be an overriding factor. There are of course many ways to evaluate, but just stating the opposite is not an effective way to do this. For example, if the argument is that interest rates fall or are low, this is a good point, but if the answer says that if interest rates are high, it won't happen, this is not a clear evaluation. It would be clearer as evaluation to say that 'however the MPC is now raising interest rates and they have risen from 0.1% to around 5% which will be very likely to have a controlling effect on inflation'. That is the kind of response an examiner enjoys reading and awards generously.

One examiner made a comment about the relationship between wages and prices, which is understandably one of the more common answers. She suggests we talk about a price-wage spiral rather than that wage-price spiral, as so much of what we are seeing in terms of wage negotiation in the economy today is a response rather than a causal factor in the very first stage.

This is a typical response that scores 6/8 because there is no evaluation.

(b) Examine **two** reasons for the rise in inflation in the UK. Refer to the information provided in your answer.

(8)

The rise in energy prices is one of the main drivers of higher inflation in the UK. Looking at figure 1, it can be seen that UK gas prices have increased from around £0.50 per therm in 2020 to around £5.40 per therm in 2022, which is almost 11 times greater. This causing a rise in inflation as businesses have to pay more on energy bills, which brings up their average costs, this then passes on as a high price to consumers which leads to higher prices everywhere and therefore inflation. This is reflected in figure 2 where CPI in August 2022 was 9.9%, - very high inflation.

Another reason for the rise in inflation in the UK, is food prices, these have increased due to the fall in the value of the pound which has made imports more expensive, as stated in extract B. As imports cost more to buy in, there is a price rise to consumers to cover this, this causes inflation as everyone is having to pay more for the same good as previously. This causes a current account deficit which leads to inflation.

To summarise, in my opinion the rise in energy prices has been the main reason for inflation as figure 1 and figure 2 show a similar pattern, as gas prices increased rapidly 2021-22, CPI matched this and rose just as dramatically as a rise in gas prices causes a rise in everything else.



The answer is good because there are two clear points, all based on the data. The logic goes off topic (a current account doesn't in itself cause inflation) and the real issue is the summary. There is no point in giving a summary as it just repeats everything that has already been said.



You must evaluate for 2 marks on the 8 mark examine questions.

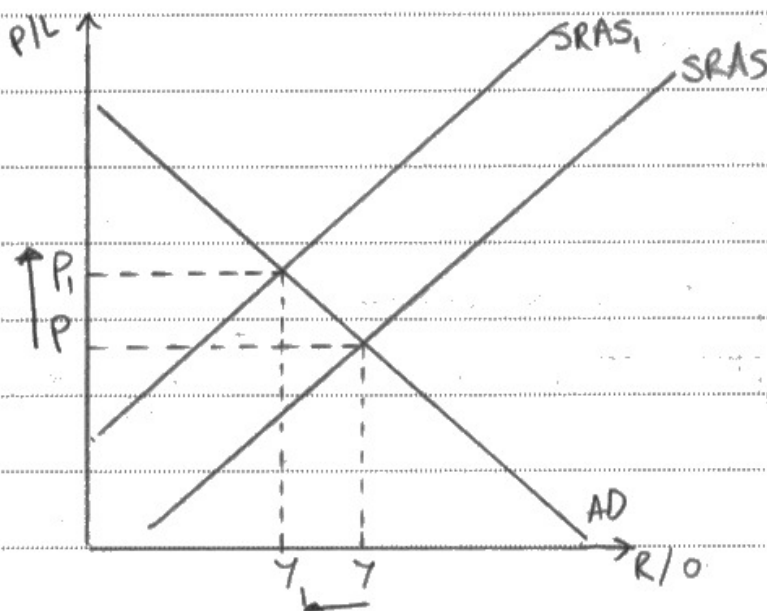
This answer is a joy to read. Clearly 8/8.

- (b) Examine **two** reasons for the rise in inflation in the UK. Refer to the information provided in your answer.

(8)

Inflation is a sustained rise in the general price level.

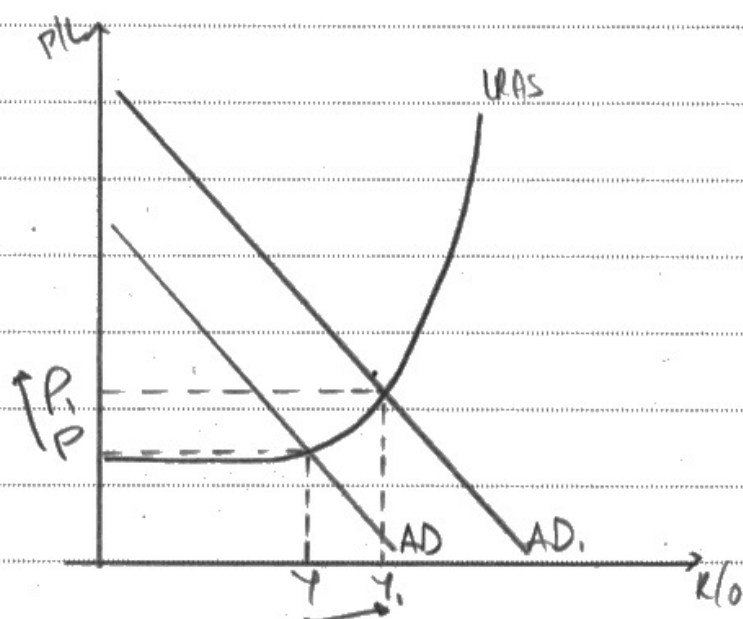
One reason for a rise is increased costs of oil due to Russian invasion in Ukraine, causing transport costs and cost of raw materials to rise. This is known as cost-push inflation. Cost of production



risks, causing SRAS to shift in to $SRAS_1$. This causes a decrease in real output from Y to Y_1 and since producers pass on this cost

to consumers, prices rise from P to P_1 . ~~Although~~ This can be seen as gas prices have heavily increased in August 2022 compared to August 2012. ~~Although, since~~

Another reason for rise in inflation is due to Britain's Quantitative Easing measures in response to Covid-19. They ~~take~~ £100bn in QE to ~~ease~~ ease the pressure of Covid. Increasing the money supply boosts inflation as it means more money in the economy, so consumption increases. As consumption is



a large component of AD, AD shifts out to AD₁, causing prices to increase to P₁ from P, and a rise in output from Y to Y₁.

However, consumer confidence is quite low in the UK currently which may mean that consumers delay expenditure and instead save.

This would be a withdrawal and so not actually have such a large impact on inflation.



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Examiner Comments

The diagrams are lovely and there is data interwoven in the answer.
The final paragraph gets 2 evaluation marks.



ResultsPlus
Examiner Tip

If you can, use a shift in aggregate demand AND aggregate supply.

Question 1c

The question this year was much more fruitful and highly awarded than in previous years because it was clearly that the impact could be singular or more than singular. This meant there was no cap on the levels of marks, and a short but well explained impact could easily reach Level 3 KAA. A little use of the data, and specific to the diagram was all that was required.

However there were some significant problems. One examiner commented that the drawing of diagrams had not been sufficiently rehearsed and there is a presumption that in the classroom the use of whiteboard for drawing had greatly diminished because of the ease of finding ready made diagrams on the internet. Even the PE noted from her own classroom that when asked to draw a cost and revenue diagram, any students making notes on electronic devices would just search up a diagram.

It is vital that we practice time and time again with these diagrams. The geometry is important and it is only really clear about things that can go wrong when we try to do them ourselves.

The other issue that really stood out as a problem was the distinction between fixed and variable costs. Clearly for some firms such as swimming pools, gas will be a fixed cost, because once the water is heated it will not cost more for one extra swimmer, but for many firms it is a variable cost e.g. steel plants or electricity producers the extra unit needs more case. It is fundamentally important that the candidate makes it clear in her answer, as to whether fixed or variable costs are being considered, and moves the appropriate curves in connection with their choice (that is make sure that MC moves if it's variable cost, and make sure there is a new equilibrium price and quantity).

Question 1d

Despite many attempts to tell the students, it is clear that some still think that a certain number of points must be made, and there are students that make a series of underdeveloped points and run out of time for their evaluation. Clearly at least two policies must be given because the question asks for plural policies, but there is no correct number of policies. The most important skill for candidates to show is that they can develop a sustained chain of reasoning on both the micro and macro side of the economy. This could involve one or more policies on each side and it is not a matter of how many policies but how well they are applied, shown to be relevant, and a chain of reasoning can emerge.

One factor that the question could draw out was what type of inequality could be considered, and some of the excellent answers that were seen covered income, wealth, age, geographical, wage or gender-based arguments. Most answers included at least one diagram, and the use of at least one micro and macro diagram was an excellent way to pick up analysis marks. For example there were rises in the national minimum wage, some labelled with 2023 data, and on the macro side there were a large number of AD AS diagrams for example in showing the

inflationary effects of expansionary fiscal policy.

In evaluation it is certainly an effective approach to say why the policies might or might not be effective, whether there are adverse consequences, and the time lag they involve.

Question 1e

This was a very relevant set of data, and the context could not have been more up to date. The main problem was the change in corporation tax that was mentioned in the passage, and some answers used this in relation to a shift in the cost curves. Of course, corporation tax is post-profit and some answers therefore became off track in their chain of reasoning.

In general this question was far more effectively answered, with a mean of 17.74 rather than 16.46 for question 1d. It was also far more popular in a ratio of 4:1 (the split on 2d and e was 1:1). Candidates do find it easier to talk about effects rather than causes or policies, but this is probably because the diagrams are easier to link to each type of tax.

The most common micro effect was the potential cut in the top rate of income tax and/or the 19% standard rate, and diagrams showing increases in demand/consumer surplus were common. It was also very common to see the discussion of corporation tax that was in Extract A, and the evaluation was often using the passage to show why at the time this was inadvisable. Many answers used the removal of the cap in bankers' bonuses, although it was difficult to see why this was a tax. The rise in NICs was used by many although it was not clear that many people could understand the 'levy' was a rise in tax rather than the fall in tax asked for in the question. Some were effective in saying that the decision to use the tax was reversed, and the mark scheme allowed for this as a tax cut, although effectively it was not a rise in a tax because it was removed before it was implemented.

One of the most effective ways to evaluate on this question was to use the context of the UK today. Since the fiasco described in the passage, inflation rose to over 10% in the UK and there is clearly a link between the fiscal stance and the rate of inflation. Many also discussed that the MPC raised the interest rate even further than the 2.25% mentioned in the passage, and those who showed current knowledge of the macroeconomic position were well rewarded.

Question 2 (a)

The breakdown of marks for a 5-mark question is 2 K, 2 Ap and 1An. After many reminders of this in examiners' reports it seems that almost all candidates have been drilled in the need for 2 Application marks.

It was a surprisingly large number of answers that confused financial markets with financial analysts. The analysts obviously look at markets, so an analyst cannot be seen as a financial market.

Some of the answers taking this mistaken approach could still pick up application marks for example by referring to mortgage lenders withdrawing deals.

This is a more straightforward way to earn 5/5.

(a) Using the data provided in Extract D, explain one role of financial markets.

(5)

The financial market allows for ~~saving~~ borrowing, between buyers and lenders. The buyers may be people looking to buy a house and therefore have to take out a mortgage^{gage} and borrow money to do so. ~~There are:~~ "many lenders in the mortgage sector" "increased cost of borrowing of over £5200 for the average mortgage in the UK. There need to be lenders for this to happen:" lenders in the mortgage market". The financial markets allow for transfer of financial assets.



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Examiner Comments

Do not feel you have to use all the lines in an answer to pick up the marks.

The examiner is looking for brevity and clarity, and one clear step in the reasoning, e.g. 'because', 'leads to', 'allows for'.



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Examiner Tip

Remember to make at least one analytical chain of reasoning in your paragraph (a) questions. Two application marks are always available.

This is a good example – there are in fact 4 ways in which this answer could have been awarded the two application marks, but the cap is the two marks for application.

(a) Using the data provided in Extract D, explain **one** role of financial markets.

(5)

Financial markets can be used to facilitate lending/borrowing, such as people borrowing for mortgages. It brings ~~the~~ banks and consumers together. Interest rates are imposed, which allows banks to make money. People coming to the end of their fixed-rate mortgages are seeing rises from 2% to over 5.5%, with increases in the cost of borrowing of over £5,200 a year by 2024. This has been a result of lenders in the mortgage sector withdrawing deals, reducing the supply, although demand is not falling. ~~There~~ However demand could fall in the future due to the high interest rates, with house prices falling by 10-20% and the property bubble bursting.



ResultsPlus
Examiner Comments

The knowledge mark was usually given as to 'facilitate lending/borrowing' as here, and the second mark was often given for referring to mortgages.

The analysis mark was however harder to find in many answers, and in this example the fifth mark is finally awarded 'outside the mark scheme' or OMS because there is an explanation that the firms make money or profit from offering the financial products.



ResultsPlus
Examiner Tip

Two marks for application – this is a maximum, but the marks are reserved for it.

Question 2 (b)

The (b) 8 mark questions take the format 2K 2 Ap 2An 2Ev. The best answers used a very straightforward, two paragraph structure: point, explain, example, evaluate. There is no point in writing really long answers, and the only reason that more than one page is available for the answer is that sometimes diagrams are useful for either the Application or Analysis (even at times used as Evaluation) and when students draw these they are encouraged to draw them as large sized as possible.

This question was seen as very accessible with more than enough material in the extract. Most students chose personalised services and objectives of the firm to be something other than profit maximising.

Another common answer was to refer to lack of or expensive parking, and the resultant lack of demand keeping high street shops small. However just saying that out of town shopping centres do have free and large scale parking was not actually evaluation, but rather a repetition of the same point. A more productive way to evaluate was to say that e-bikes or park-and-ride is a type of investment that might resolve this issue in future.

However a very large number of answers were centred around economies of scale. Clearly a favourite topic of the student, this was a little more complex when applied in this context. Lack of economies of scale was allowed as an answer, but it needed a little more examination as to why this might prevent firms from growing. Likewise diseconomies of scale was a common response, but while valid this still had to be applied to the context of small shops on the high street.

This is a very good example of how NOT to evaluate.

(b) Examine **two** reasons why retailers on the high street tend to remain small.

(8)

They want to remain small to maintain customer loyalty as they usually have a good ~~re customer~~ and strong customer base. As a result, remaining small is their best option. This is because they usually offer niche services. "offering local or personalised services". As a result, there might not be a great demand for their goods in terms of the number of people demanding their goods. However, the few that do, demand it in huge quantities.

Another reason why high street retailers tend to remain small is because they do not have access to finance. ~~"many high street firms cannot compete on price with~~ "out of town retail parks... providing a larger range of shops". Firms on high streets such as charity shops and small cafés usually do not have access to finance to increase or expand their stores and prefer to remain small.

However, the fragmented ownership of retailers on the high street, lack of centralised coordination and high vacancy rates may be their strengths as this lowers barriers to entry for new concepts and operators.



ResultsPlus
Examiner Comments

In both instances the 'however' sentence was just saying the same point in a different way (first paragraph) or bringing in a new reason (second paragraph).

This is good use of the data – charity shops, cafes and personalised services – very clearly 6 KAA.

But no evaluation is valid, so 6/8 overall.



Make sure you evaluate. You need to offer some critical judgement, or a point which makes your own reason look less convincing or even more convincing in certain cases.

This is an example where avoiding diseconomies of scale is used accurately.

(b) Examine **two** reasons why retailers on the high street tend to remain small.

(8)

One reason high street retailers stay small is due to their niche markets, many of the retailers don't expand because their market size is so small, for example the 'crystal shops' these are small shops that sell crystals and ornaments specifically for the superstitious, so they wouldn't expand as not enough people purchase ~~these~~ those types of products. However they still do well as there is still an audience for the niche markets and due to the amount of retailers being limited their interaction provides enough revenue.

Another reason is to avoid diseconomies of scale, especially if they're family run, they would know everything that goes on, and it would be completed the way they want it done. However if they expanded it could result in the principle agent problem where the other managers may want lots of profit but the family wants a memorable, kind

customer experience. However if they expanded online the family would still have complete control over how it is run while reaching a larger market.



ResultsPlus Examiner Comments

The first piece of evaluation is not valid but rather weak continued analysis.

However the last paragraph does have a well-developed evaluation paragraph which enables the student to just about pick up the full marks overall. $6 + 2\text{Ev} = 8$ marks.



ResultsPlus Examiner Tip

Keep the 8 mark questions short, but follow the pattern 'point', 'explain', 'example', 'evaluate twice over'. This method enables even half a page of writing to earn 8/8 marks.

Question 2 (c)

The main problem with this question was relating the answer to the VALUE OF SALES – that is, price times quantity rather than just quantity.

Many answers simply referred to decreases in price, and while this will clearly increase quantity, the value only increases if demand is elastic. Similarly, non-price competition such as 3-for-2 only increases the value of sales if people spend more than they would have done overall.

This looks as if it will be a high scoring answer...

(c) Discuss possible methods of price and non-price competition that firms could use to increase the value of sales on the high street.

(12)

~~argue~~ a method of price competition that could be used is free parking for customers of businesses in high street areas, as a main reason consumers are deterred is 'expensive parking.'

This would increase incentive to shop at small businesses as there is no additional cost to visit.

However, this may ~~be~~ prove difficult to regulate and could lead to increased costs for businesses if a traffic warden is needed to be employed to monitor parking.

a non price method that could be used is the personalisation of services offered by high street stores. Promoting their use of local produce and utilising their high customer loyalty to their advantage in order to curate a business image which could be further strengthened by a social media presence is likely to increase the value of sales.

however, the success of this may depend on the demographic of their consumers older people, who tend to have higher populations in high street towns and villages are unlikely to find businesses via social media.



However price and non-price competition is not understood and there is no link to revenue.

Scores 3 marks.



Make sure you use every word in the question, and use as much economic modelling as you can from your two year course.

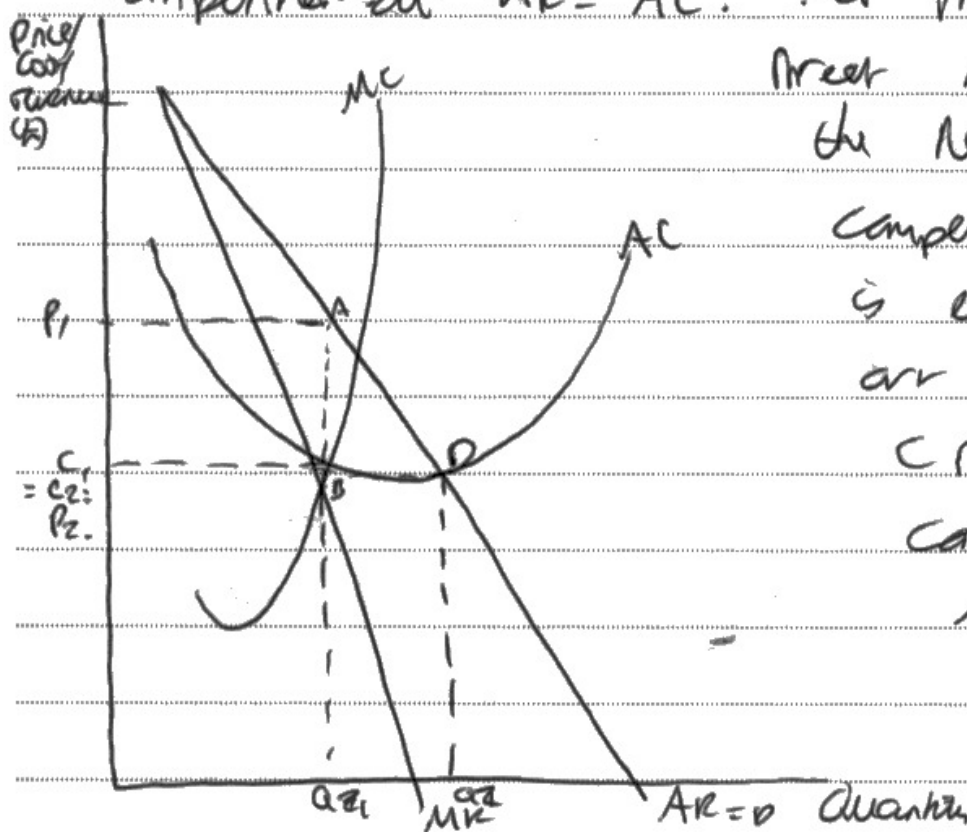
This is an answer which is too long and is hard to read. However the senior examiners picked their way through and gave KAA L2+. The evaluation was clearly 4/4 but the points themselves did not link to revenue but profit.

(c) Discuss possible methods of price and non-price competition that firms could use to increase the value of sales on the high street.

(12)

Sales maximisation is an alternative business objective that may be utilised to maximise the value of sales.

One way that a firm may achieve sales maximisation may be through price competition at $AR = AC$. For many high



street retailers the need to compete on prices is expanding over time as E-commerce references the consequences of Amazon and eBay that operate with lower fixed

costs than high street firms. This means that in order to prevent the outsourcing of consumer demand high street firms in order to both increase their sales and maintain revenue or to maintain operations may cut their prices from the non-competitive

Short-run profit maximising equilibrium of P_1 where $MR = MC$ to P_2 where $AR = AC$. This means that as prices fall under the law of demand the number of sales may increase as consumers suborn away from online retailers particularly after covid-19, attracted by greater potential consumer surplus CS P_1, A, D, C when home price is at normal profit. However this may assume ceteris paribus. In an interdependent market structure other firms may also cut their prices and so the extent that sales may increase may be limited as the demand curve is shifted as in ^{competition} matching price cuts the demand of consumers is price inelastic.

On the other hand, local and small independent retailers may compete on non-price factors such as a ~~loyalty~~ loyalty card scheme. Extract C points to the changing consumer preferences following covid 19 in which shoppers are returning to the high-street.

Therefore, in addition to the extensive brand loyalty intrinsically provided by the notion of a smaller firm providing localised goods that may enhance the desired consumer utility, a further non-price factor such as a loyalty card scheme may encourage the habituation of shopping in the local high street. Thus in addition to the greater extent of utility deriving from the rise by advertising local features the increase in price inelasticity of demand by a more inattentive consumer group may reduce sensitivity to price competition of online retailers. However, from a Schumpeterian view of creative destruction this may only last in the short-run. This is because large firms such as Amazon with large ~~supernormal~~ ^{normal} profits may invest into innovation to achieve radical change in order to attract greater consumer utility ~~and~~ and a sales away from small firms in the long-run.



Make sure you underline and relate to every element of the question. This is about REVENUE not profit or number of sales. This earned 5 (max L2) and $4e = 9/12$.



Write clearly, use paragraphs, and remember that there are only 4 marks for evaluation on a 12-mark question and if you are L2 then the default is 4/4.

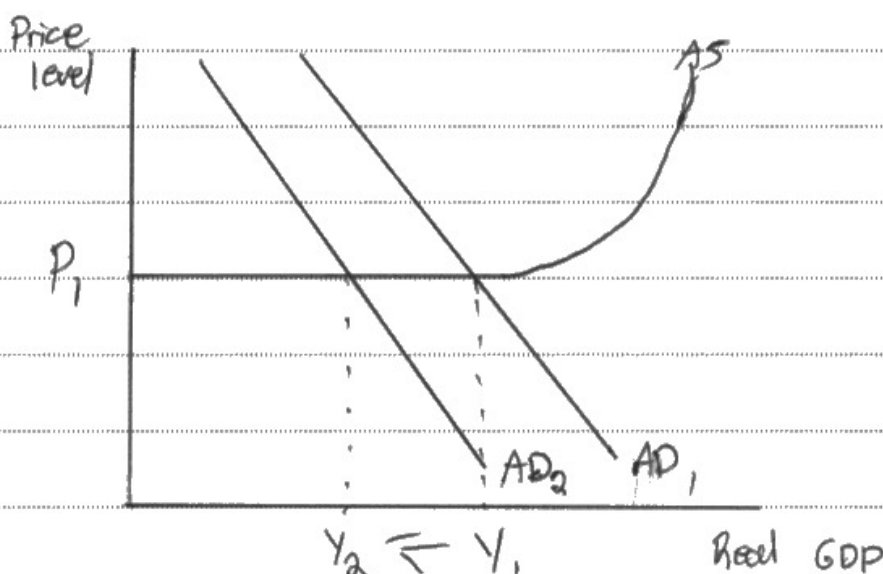
Question 2 (d)

This question on house prices falling caused some significant problems. Mean at 14.1 is the lowest any essay has had in the whole specification series. The average mean is 16 to 17.

When house prices are learned about, the wealth effect is the most important factor to put in your notes. Of course the effect on confidence and on first time buyers is important.

What does NOT happen is that suddenly people buy a lot more houses in general.

One macroeconomic effect of falling house prices is ~~the~~ a negative wealth effect, decreasing economic growth. Housing is usually a ~~substantial~~ households main asset, so their spending will be correlated to the value of their house as ~~they~~ it will be a substantial determinant of their wealth.

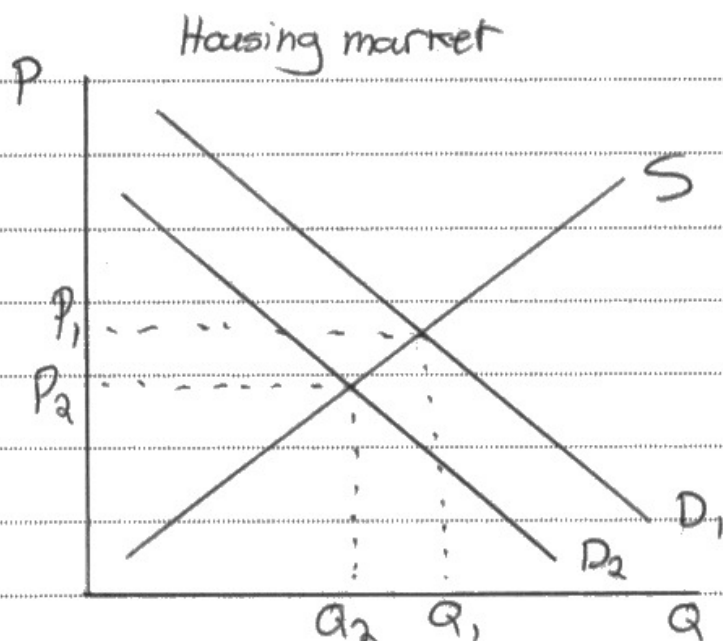


When house prices fall, households are essentially poorer, this leads to decreased consumption

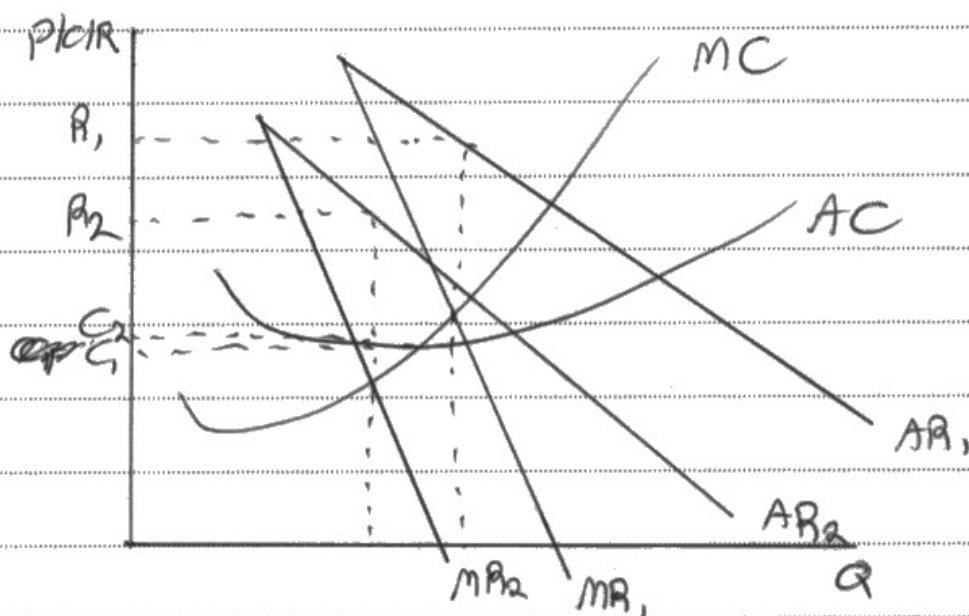
als. They will feel less able to spend as much, especially on discretionary spending. This fall in consumption will result in AD shifting from AD_1 to AD_2 , decreasing real GDP from Y_1 to Y_2 . This shows the substantial impact that a fall of up to 20% in UK house prices would have on the UK economy.

However, the long-term impact of a 20% fall in UK house prices ~~is~~ may be negligible due to the general resilience of the housing market over the last 2 decades. Since 2005, there has only been 1 major drop in house prices which was during the 2008 financial crisis and in 2021, house price growth was over 10%. Although 20% is a substantial drop in ~~the~~ house prices, historically house prices have appreciated substantially and compounding the increase in prices since 2005 results in an increase much larger than 20% so the long-term effect of a fall in house prices is much less substantial on economic growth.

One microeconomic effect of falling house prices is decreased profits for real estate developers. House prices have primarily fallen as a result of decreases in demand.



~~This~~ The shift from D_1 to D_2 is largely due to very high mortgage rates between 5% and 7%. This decrease in demand would decrease revenue for real estate developers.



This shift of the revenue curves would cause total profits for developers to fall from $P_1 - C_1$

to $R_2 - C_2$. This may result in some ~~fewer~~ X-inefficient firms going bankrupt. This would then result in a decreased supply of housing as developers are one of the main providers of housing in the UK. *

However, the effect on real estate developers would ultimately depend on their original profit margins. If they were already high to begin with, ~~as~~ it may allow many of the firms to continue operating, despite a substantial fall in profits. This means that the long-term implications of less real estate developers on the supply of UK housing may be minimal.

In conclusion, the macroeconomic effect of falling house prices on economic growth is the more substantial impact as the housing market is so instrumental in the UK as it is the main asset of many households so the negative wealth effect impact will be ~~substantial~~ large on economic growth rates in the UK. The microeconomic effect is less significant than the macroeconomic effect as the effect on real estate developers will not be substantial in the long term. A fall in UK house prices may ~~also~~ allow many young people to get on the property ladder which could have benefits for the UK economy in the long term.

* This would adversely effect both the housing market as well as real estate developers as a shift inwards of supply would decrease the supply of new housing putting further strain on the lack of housing in the UK as the quantity would fall.



ResultsPlus
Examiner Comments

This scores 23/25. The diagrams are clear, and the answers are in context. What it really needs is a Judgement not a Conclusion.



ResultsPlus
Examiner Tip

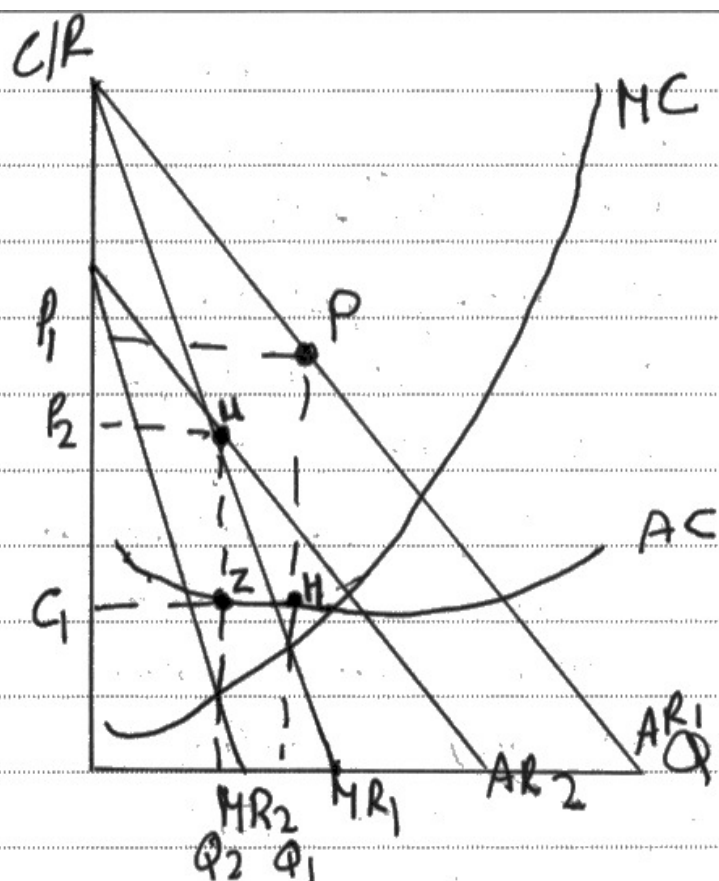
Do not reproduce pre-learned essays, but it is good to have in mind a micro and a macro diagram that you could use in any essay, as here. Make sure the answer is fully embedded in the context. Then evaluate both the micro and macro side – at least one good argument on each side.

This answer does not initially look excellent although eventually it achieves a reasonable score of 18/25.

Throughout the answer does not get above L3 KAA and it is clear that the chains of reasoning are short. There is some use of data and there are links made to the diagrams, although at times – for example on page 4 – the links are tenuous and the steps in the chains of reasoning are not convincing.

Write your answer here:

one impact is a ~~de~~ microeconomic impact
is a decrease in Supernormal Profit for firms.
" could fall between 10% and 26% ". This will
lead to a negative wealth effect whereby a fall
in asset prices causes consumers to spend less money
as they feel less wealthy. This will lead to a
decrease in the demand for goods and services
in an economy causing a shifting in the shift
AR-curve from AR_1 to AD_2 and decrease
in MR curve from MR_1 to MR_2 .
This will lead to a decrease in the price
from P_1 to P_2 and quantity from Q_1 to
 Q_2 . This will lead to a decrease in
Supernormal profit from $PP_1 HC_1$
to $UP_2 C_2$. Therefore, one impact is
a decrease in firm Supernormal profit.



However, this depends on the number of homeowners there are in UK. The average price of a house in the UK is around £250,000. This leads to people renting houses. They will continue ~~continuing~~ their consumption levels as they won't be affected by the change in the negative wealth effect. Therefore, the overall impact on demand for goods and services depends on the proportion of earners who are homeowners as those that rent won't be affected.

~~One macroeconomic~~
Another impact is a decrease in the geographical mobility of labour. "seeing rises from 2% to over 5.5%". As

House prices ~~fall~~ fall in value, ~~pe~~ and people are paying more for their mortgage costs, the default rate could increase:

as they can no longer afford to pay the mortgage.

However, the value of house is less than what they bought it for creating negative equity.

This will lead to ~~them~~ consumers having low credit score which will affect their

long term ability to borrow money. If a job opportunity occurs, then people may not be able to move there as they can't borrow money

to buy an ~~ap~~ house anymore or afford to

as the banks will be charging them high

rates as they have low credit score. This

will cause labour to become more

geographically immobile. ~~creating labour~~
~~market~~

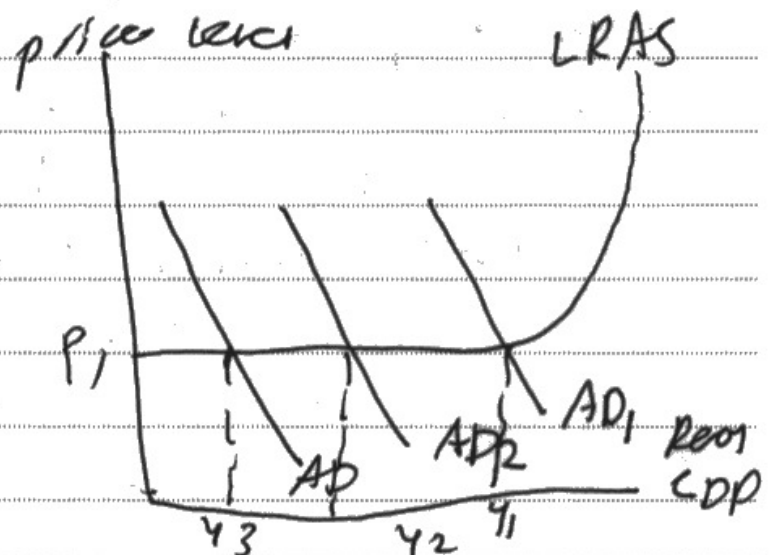
However, ~~this depends~~ because the UK is a service economy, jobs can be done remotely and no longer require ~~physi~~ people moving.

This will mean that people will be

still able to accept jobs that are

& Can be done remotely but not ones that can't. The UK ^{economy} is about 80% services so the overall impact on geographical mobility of labour won't be significant.

One macroeconomic impact is a decrease in economic growth. "house prices could fall dramatically". This as previous explained, there will be a decrease in demand for goods and services which will decrease supernormal profit. This will lead to firms paying less corporation tax revenue. This will lead to a decrease in government spending as they have less tax revenue. This will lead to a negative multiplier effect as there will be government spending injection into circular flows model. This will lead to a decrease in AD from AD_1 to AD_2 to AD_3 causing a decrease in real GDP from Y_1 to Y_2 to Y_3 . Causing a decrease in economic growth.



However, this depends on whether the number of firms that use transfer pricing there. Transfer pricing scheme is whereby firms set up daughter companies in other countries to transfer profit there to pay less tax as they have lower corporation tax rate like the Virgin Islands. This will mean that the effect in tax revenue depends on how many firms don't use transfer pricing there. XX (see book next page)

In conclusion, the microeconomic impact will be more significant than the macroeconomic impact as large the or large firms tend to make the most amount of supernormal profit and therefore most likely to use transfer pricing. If the decrease in demand will be felt by most every firms whereby the macro impact on government spending can be resolved through issuing government bonds which isn't very expensive for the UK as they have high debt never defaulted so have low yields on their bonds as there.

i) high demand for them.

However, the decrease in government spending won't be that significant. This is because the government can issue bonds to fund government spending. These have low yields on them as the UK has never defaulted so isn't very expensive as there's high demand for them. Therefore, the impact on economic growth won't be that significant.



ResultsPlus
Examiner Comments

The points are negative wealth effects and geographical mobility, both of which work well. It does not reach Level 4 though, as the chains of reasoning have gaps or are too short to be convincing. Therefore the maximum KAA score of 12/16 is given.

Throughout the evaluation is L2+Ev which means it cannot earn more than 6/9 for evaluation.



ResultsPlus
Examiner Tip

Quality in your answer always surpasses quantity. Write a few points really well, and extend the chains of reasoning to make points that you could read in a quality news report. Read the BBC or similar journalism on house prices to see the most common kinds of arguments, and use some diagrams you know from your course.

Question 2 (e)

A significant number misunderstood labour shortages as meaning unemployment. In this context it was rare for the answers to access many marks. Hence the standard deviation reached a high of 6.79 which is far higher than ever seen on a 25 mark question in this series. The mean was also significantly low at 14.98.

Many answers began with data use, which is very effective.

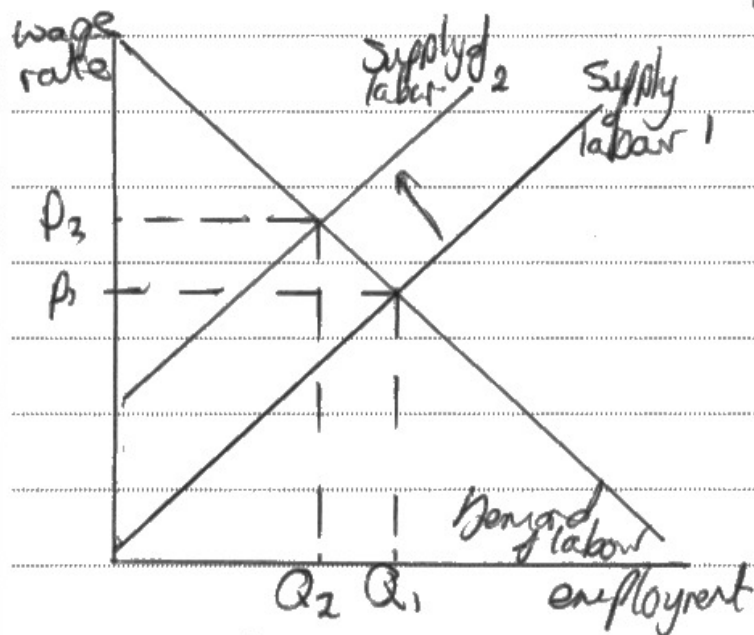
The use of labour market diagrams was also very common, but few (this is an exception) used the leftward shift to explain why wage rates would rise, which was a good approach. Many instead digressed and talked about why there was a shortage of labour, and a huge number wanted to talk about Brexit.

Another excellent approach was to move from rising wage costs to an increase in costs, shown on a cost and revenue diagram. This could be either a fixed cost or a variable cost change, as is always the case with labour as a cost, but it must be very carefully explained in the candidate's answer about why the labour is fixed or variable. This answer does it as a fixed cost but it is not really clear why it is fixed apart from 'if firms have to pay employees a higher wage' which does imply a fixed cost by linking it to high street shops and social care.

There is really only a hint of evaluation in the answer but it eventually reaches Level 2 evaluation on the fourth page, when discussing what the government might do about the problem.

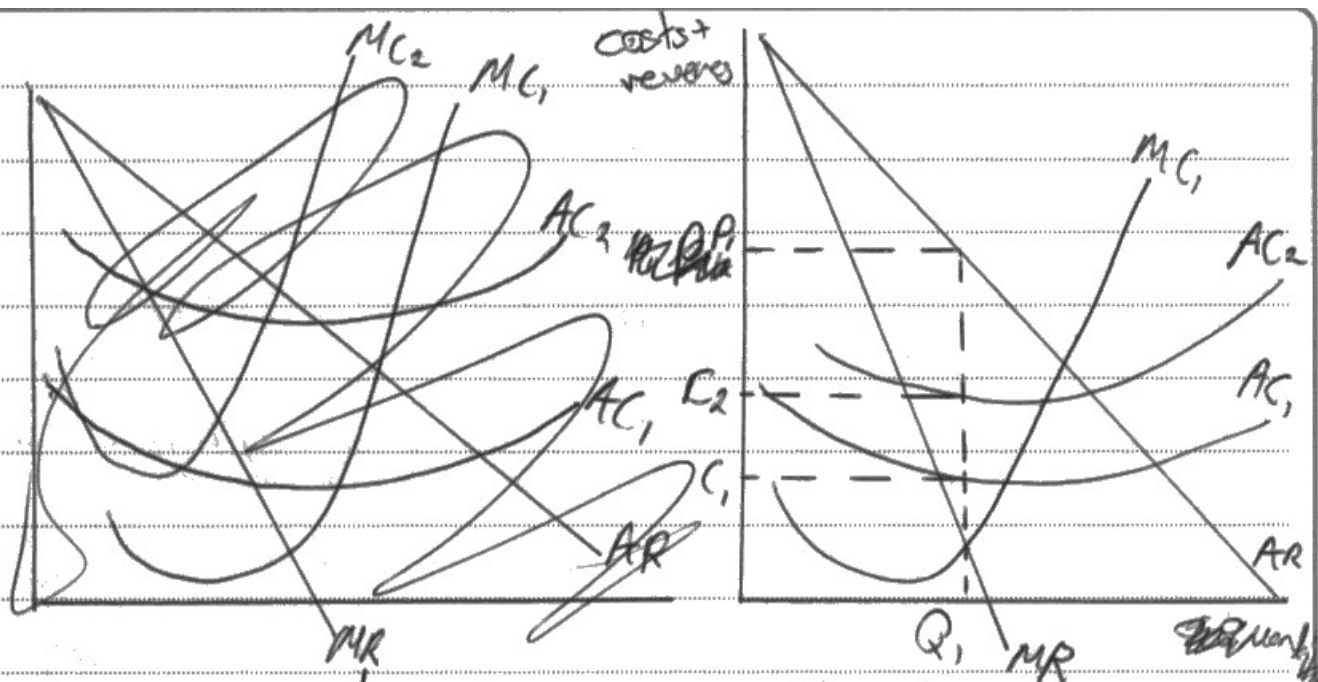
In the UK, job vacancies are around 1.1 million due to higher shortages. This could cause a fall in the real GDP of the UK as well as firms being short staff.

A microeconomic effect of labor shortages in the UK may be that firms will have to pay higher wages to workers.



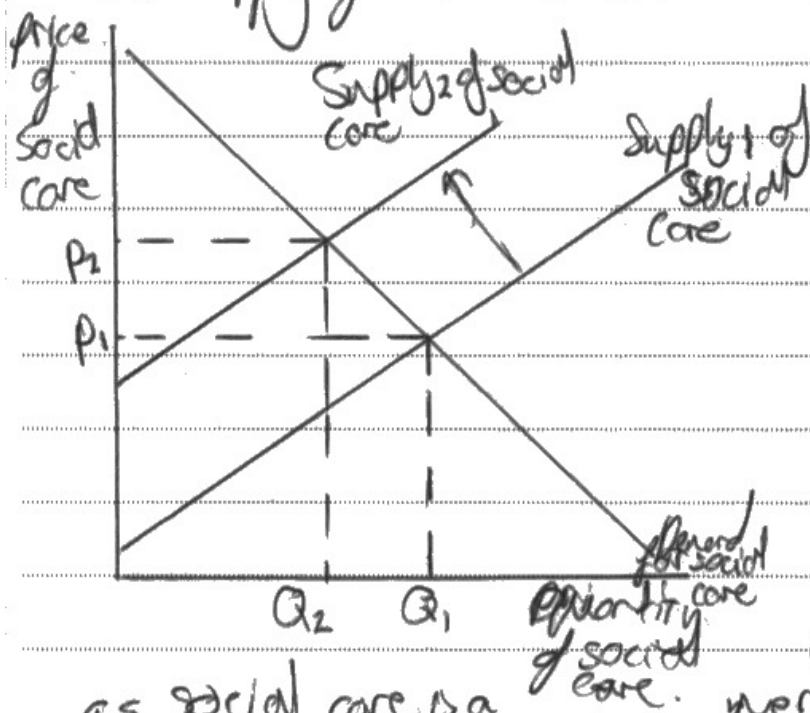
Thus if the supply of labor falls as shown in the diagram, where supply of labor falls from $p_1 \rightarrow p_2$ supply $q_1 \rightarrow$ supply of labor 2 there will be a corresponding increase in the wage rate from $p_1 \rightarrow p_2$.

p_2 . If firms have to pay employees a higher wage at p_2 then the average fixed costs of the firm will increase.



The marginal cost curve will not move as the cost of wages does not vary with output. Consequently, firms will realise lower levels of supernormal profit from the box between p_1 and c_1 to the area between p_2 and c_2 . This could prove detrimental to some firms who struggle to make normal profit due to changing activity of consumers like high street retailers. The largest impact of the higher costs of production will be in social care where there are around 300,000 in that position. This could then increase the costs of social care for consumers and reduce the consumer surplus (difference between what the consumers pay and what they are willing to pay). However, Extract 2 states that "firms offering higher wages does not solve the issue" this could lead to the costs of increased wages to be minimal as even if wages increase workers will

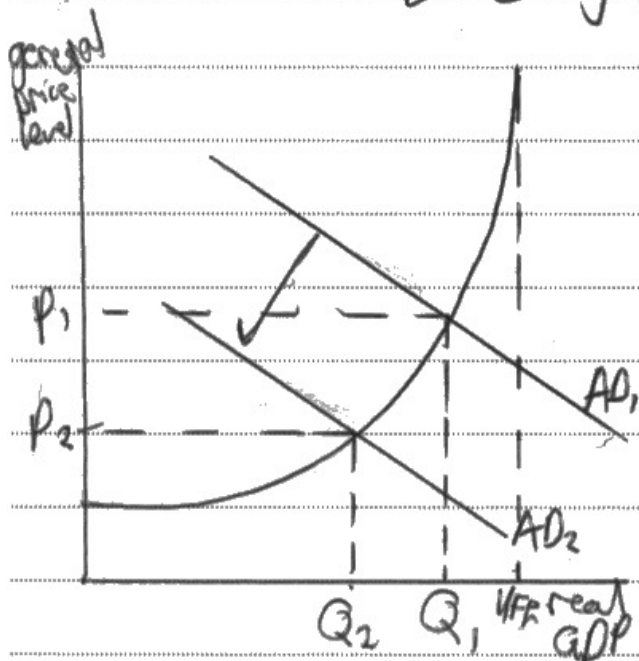
still not be incentivised to work. thus leading to a reduction in supply of some industries like social care. This can be shown in the diagram



where supply of social care reduces from supply 1 to supply 2. consequently quantity of social care falls from $Q_1 \rightarrow Q_2$. Overall creating market failure

as social care is a merit good and it will be under provided.

A macroeconomic effect of labor shortages in the UK may be the withdrawal of investment in the UK. This may also refer to the issue that people seeking work do not have the skills of availability that employers need. If businesses are struggling to find skilled labor they will simply relocate to a country where there are people with the correct skillset.



the issue that people seeking work do not have the skills of availability that employers need. If businesses are struggling to find skilled labor they will simply relocate to a country where there are people with the correct skillset.

this can cause a withdrawal of investment to the UK.
this cause a decrease in aggregate demand from $AD_1 \rightarrow AD_2$ because investment is a key part of the aggregate demand formula ($AD = I + G + C + (X - M)$)
this can then reduce the real GDP of the UK
as ~~the~~ the UK will produce less goods furthermore
there will be a fall in employment as the equilibrium
moves further away from full employment this can
have the effect of people's standard of living
falling as they have less disposable income and
can be lead to more people in relative
poverty. this could then lead to an increase
in government expenditure as more people may need
benefits and this worsen the ~~UK's~~ UK's current
fiscal balance. ~~However~~ however a positive
of a reduction in AD will be to reduce
the inflation rate of the UK from $p_1 \rightarrow p_2$
this will help the government towards the government
objective of 2% inflation rather than the 9.9%
inflation rate the UK has in August 2022. Further
labor shortages may encourage the government
to invest in training programs to reduce the
unemployment which may improve confidence that
the UK government is doing something to ~~reduce~~
the issue.

In conclusion a micro economic effect of labor shortages could be a rise in wages for workers due to a ~~low~~ falling supply of labor but in turn this may increase the cost of firms and could reduce the supply of some services like social care. A macroeconomic effect of labor shortages could be a fall of investment into the UK due to a lack of skilled workers causing a rise in unemployment and fall of real GDP however a reduction in inflation may also occur as consumers will have less disposable income hence demand will fall. Overall the macroeconomic effects of labor shortages are more significant and in the long term firms may lose confidence in the UK and cause a lack of future investment.



ResultsPlus
Examiner Comments

This does reach Level 4 of both micro and macro, and the senior examiners gave this 16/16 for KAA.

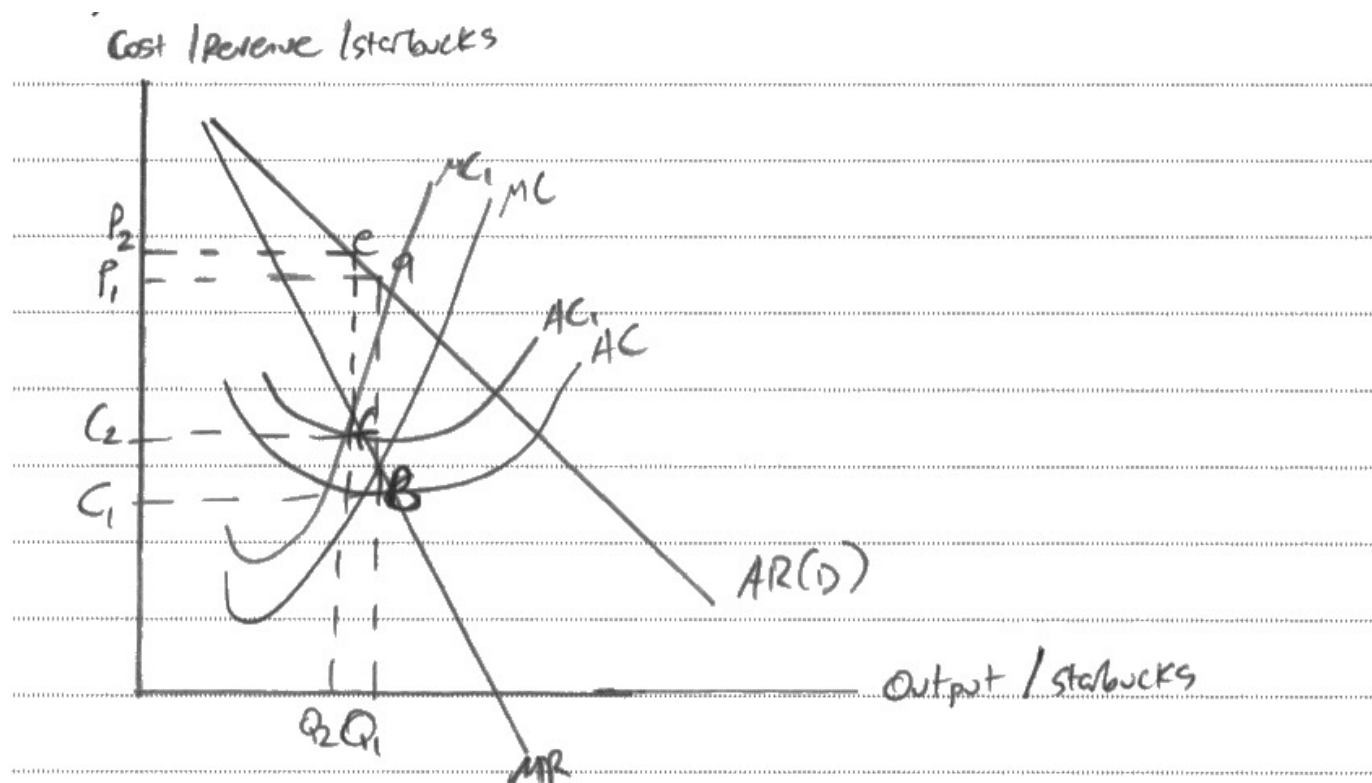
There is a Judgement (J) but the overall score for evaluation is mid L2 Ev.

The final mark is $16 + 5e = 21$.



Do not keep repeating diagrams and analysis. Instead devote 9/25 (or 36% of your time) to evaluation. Make an overall judgement – this can be at the start, middle or end of your essay but more often than not it is seen at the end in excellent answers.

This answer includes good data, diagrams and development. There is evaluation throughout. It is clearly a top answer 23/25 but it misses out some steps on the macro side – the conclusion at the top of page 4 is reached too quickly, and its corresponding evaluation is generic.

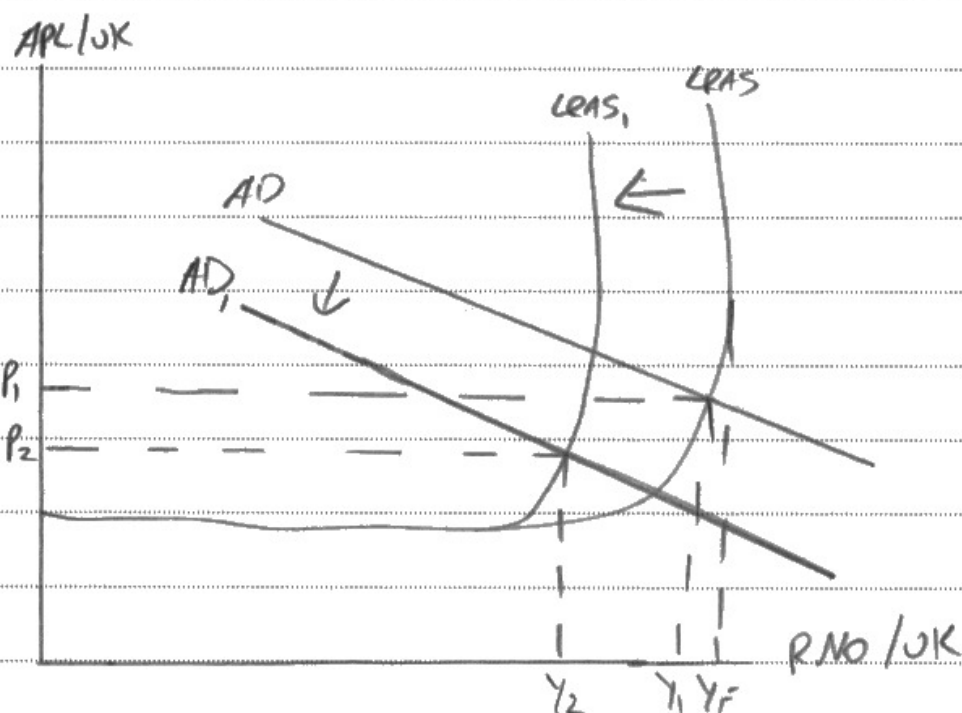


My microeconomic point is that labour shortages will reduce profits for firms. In the UK, there are almost "a million fewer people in the labour market", indicating a vastly reduced supply of labour that is shifting inward. The response of firms is to increase wages as an incentive to work, seen in high street retailers,

who have where "staff shortages are pushing up wages". The effect of higher wages is a rise in the costs of production, where at the initial equilibrium, UK firms are producing at $MC = MR$, producing output Q_1 at price P_2 , as seen on the diagram. The wage rise will push MC up to MC_1 and AC up to AC_1 , and the new equilibrium is now $MC_1 = MR$, where firms produce output Q_2 at price P_2 . Firms profits have fallen from P_1ABC_1 to $P_2C_1FC_2$, and this reduces their ability to be dynamically efficient, and the higher price P_2 reduces consumer surplus (the difference between the price consumers are willing and able to pay and the market price). This is particularly damning given the current UK cost of living crisis and would reduce consumers living standards further.

However, the effect of labour shortages on firms depends on the dependency of labour. If a firm is capital intensive, or can swap the unfilled vacancies for ~~mach~~ capital, the magnitude of the effects may not be as high for some firms. Furthermore, if the good is PED inelastic (less than proportionate change in demand than price), firms are more able to pass on these

Costs to consumers, so the burden on consumers increases even more, but for firms, they can maintain profit margins, reinvest those profits into research and development or capital to become more efficient and eventually in the long run with all factors variable, costs will fall and price can fall with it.



My macroeconomic effect is that labour shortages reduce a output led growth. In the UK, there is already a productivity problem, where UK output is still below pre-pandemic levels and productivity is the 2nd lowest in the G7. The rise in inactivity rate to 21.1% is due to workers not having the skills that employers need (Extract E), indicating a reduced quality and quantity of the factor inputs, due

to geographical and occupational immobility, shifting LRAS to LRAS₁, as seen on the diagram.

There are now also less people earning wages, so consumption may fall, bringing AD inward to AD₁. This leads to a fall in real national output from Y_1 to Y_2 , indicating a reduced productive capacity, and reduced GDP growth.

However, consumption may be maintained if those not in work claim benefits. There may also be policies to raise labour supply, like ~~reducing~~ increasing the retirement ~~age~~ age, as some of the inactivity is due to "older people dropping out of the workforce". The government could also cut benefits as a further incentive to find work, and they could use the money saved from these transfer payments to fund education and give workers skills to find work.

In judgement, the labour shortage is a serious concern for the UK government, given their already existing productivity woes. With national debt at 100% of GDP and interest repayments at £100 bn per year, the government has

little to spend on increasing labour mobility, suggesting that these shortages may persist. The Brexit effect also plays a role as many foreign workers left the country following the referendum, and health concerns after the pandemic also play a part. Overall, the UK's best bet is to incentivise immigration through visa provision, and ~~also~~ also to hold out till external shocks like the Ukraine war, and a contributor to inflation stops, to potentially raise confidence in the economy, increasing investment into training of labour, raising labour supply.



ResultsPlus
Examiner Comments

You can make just one micro and one macro point and get the top level (L4) as here. A less risky approach might be to add another point if you are at all unsure about your reasoning.



ResultsPlus
Examiner Tip

Cost and revenue diagrams are a very useful way to show the effects of cost rises. However you must make the link to MC and AC if there is a change in variable costs.

Section 1

A reminder to centres that it does not benefit candidates to have stock essay answers as they miss the higher marks by not using the context to guide their analysis and evaluation. It is helpful if the candidate marks the box for the essay chosen (1d or 1e) but if they do not (around 10%) then they are marked in a pool where the examiner has to decide which question has been attempted. The answer usually becomes clear very quickly when candidates put signals in their work and make it clear from the outset that they understand the question.

Section 2

The majority of candidates ran short of time on the essay and the advice to candidates is to reserve 30 minutes for the final essay, and to use at least one micro and one macro point, diagrams where possible and all the data that links to the points made. Evaluation is key and we need to see developed and applied chains of reasoning within the evaluation.

Paper Summary

Examiners have remarked on problems with candidates offering too much generic economic theory. Some centres are ignoring the advice to make the subject more applied and look at the real world. Those candidates who have looked at case study material are clearly so much more engaged and their answers are so much more interesting.

There were some comments from centres that there was only one question which specifically allowed the students to use knowledge from a country of their own choice – in this case in 2e a developed country – and there were no questions which allowed the students to refer to an industry of their own choice. This certainly does not mean that the time spent researching industries and countries is wasted, and there is always credit available for real world economics. For example in 2d an understanding of house prices did not need to be confined to the UK, and looking at other countries would be a superb evaluative approach. Likewise, anyone who had read any news about the ‘Trussonomics’ of 2022 would have relished 1d on the application of her policies and the effects that might or might not have followed if she had remained in position and the tax changes were followed through.

In future the candidates taking this exam should address the following issues: use the data in every question. This is a data response paper.

- use a diagram in the longer questions if you can, even if it is not requested.
- timing: allow a minute per mark, and this gives 20 minutes reading and very importantly, THINKING time. You can achieve all the marks in this time, and you do not need to fill all the space available. Question spotting does not help. Candidates who think they know how to answer a certain type of question tend to give generic responses and do not read the data available.
- do not give microeconomics and macroeconomics in EVERY answer. The only questions where both are required are the 25-mark essays, where both are REQUIRED.

Grade boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

